



**Auditor of State
Mary Mosiman, CPA**

***“State of Iowa FY16
Budget Review”***

September 2015

State of Iowa Budget

Remarks today will focus on:

- Review Standard:
Sound Budgeting Principles
- A Review of the Numbers
- Budget Highlights

State of Iowa Budget Sound Budgeting Guidance

Guidance is available from many organizations, including:

- National Conference of State Legislatures
- National Advisory Council on State & Local Budgeting
- Government Finance Officers Association
- Iowa Taxpayers Association

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State of Iowa Budget Sound Budgeting Principles

- Avoid use of one-time resources for ongoing expenses.
- Avoid multiyear accelerating commitments.
- Avoid new automatic, or “standing,” appropriations.
- Accurately determine revenue and expenses.
- Align expenses and revenue in the same fiscal year.
- Avoid shifting program funding to property taxes or fees.
- Avoid diversion of funds statutorily authorized for a specific objective to other purposes.

Source: Iowa Taxpayers' Association

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State of Iowa Budget Sound Budgeting Principles

Following sound budgeting principles
produces budgets which are:

- complete
- transparent
- sustainable

State of Iowa Budget Projected Condition of the General Fund Budget (\$ in Millions)

	Actual FY14	Final Action FY15	Final Action FY16
Resources:			
Receipts	\$7,712.0	\$8,161.4	\$8,482.0
Refunds	(955.3)	(934.0)	(953.0)
School Infrastructure Refunds	(440.4)	(451.9)	(473.7)
Accruals (Net)	(16.2)	22.0	20.0
Transfers	189.0	185.7	100.2
Subtotal Net Receipts	\$6,489.1	\$6,983.2	\$7,175.5
Revenue Adjustments	-	(19.6)	11.2
Surplus Carryforward	679.3	745.7	330.0
Total Available Resources	<u>\$7,168.4</u>	<u>\$7,709.3</u>	<u>\$7,516.7</u>
Expenditure Limitation		\$7,639.4	\$7,444.2
Estimated Appropriations and Expenditures:			
Enacted Appropriations	\$6,482.6	\$6,958.9	\$7,175.2
Net Appropriation Adjustments	-	20.5	(3.5)
Total Appropriations	\$6,482.6	\$6,979.4	\$7,171.7
Reversions	(21.0)	(5.0)	(6.7)
Net Appropriations	<u>\$6,461.6</u>	<u>\$6,974.4</u>	<u>\$7,165.0</u>
Ending Balance - Surplus	<u>\$706.8</u>	<u>\$734.9</u>	<u>\$351.7</u>

**State of Iowa Budget
General Fund Appropriations
(\$ in Millions)**

	Final Action FY15	Final Action FY16	FY15-16 Change
Admin & Reg	\$430.3	\$539.1	\$108.8
Ag & Natural Resources	43.1	43.1	-
Economic Development	44.1	43.8	(0.3)
Education	3,865.8	3,957.3	91.5
Health & Human Services	1,859.2	1,840.0	(19.2)
Justice	736.9	748.4	11.5
Transportation	-	-	-
Total Appropriations - General Fund	<u>\$6,979.4</u>	<u>\$7,171.7</u>	<u>\$192.3</u>

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**State of Iowa Budget
Other Funds Appropriations
(\$ in Millions)**

	Final Action FY15	Final Action FY16	FY15-16 Change
Admin & Reg	\$78.1	\$64.5	(\$13.6)
Ag & Natural Resources	89.6	89.5	(0.1)
Economic Development	33.7	34.0	0.3
Education	40.6	40.6	-
Health & Human Services	431.8	453.2	21.4
Justice	14.0	18.3	4.3
Transportation	507.4	527.1	19.7
Total Appropriations - Other Funds	<u>\$1,195.2</u>	<u>\$1,227.2</u>	<u>\$32.0</u>

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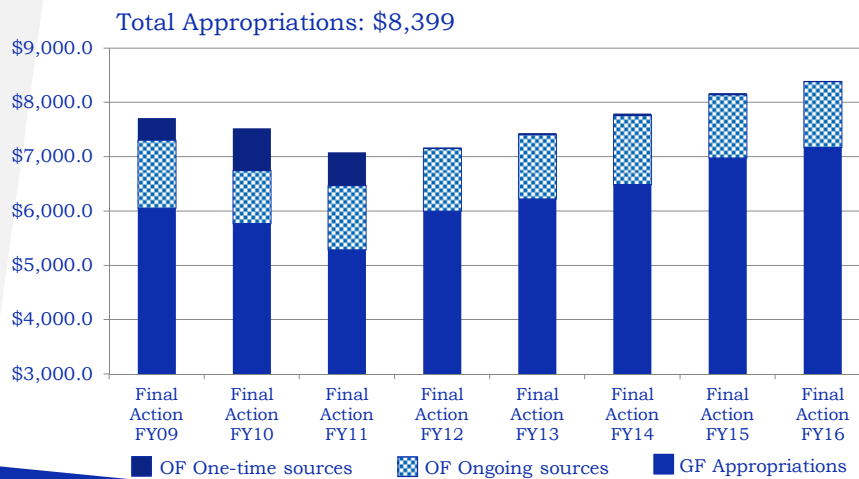
State of Iowa Budget Total Appropriations (\$ in Millions)

	Final Action FY15	Final Action FY16	FY15-16 Change
Admin & Reg	\$508.4	\$603.6	\$95.2
Ag & Natural Resources	132.7	132.6	(0.1)
Economic Development	77.8	77.8	-
Education	3,906.4	3,997.9	91.5
Health & Human Services	2,291.0	2,293.2	2.2
Justice	750.9	766.7	15.8
Transportation	507.4	527.1	19.7
Total Appropriations - All Funds	<u>\$8,174.6</u>	<u>\$8,398.9</u>	<u>\$224.3</u>

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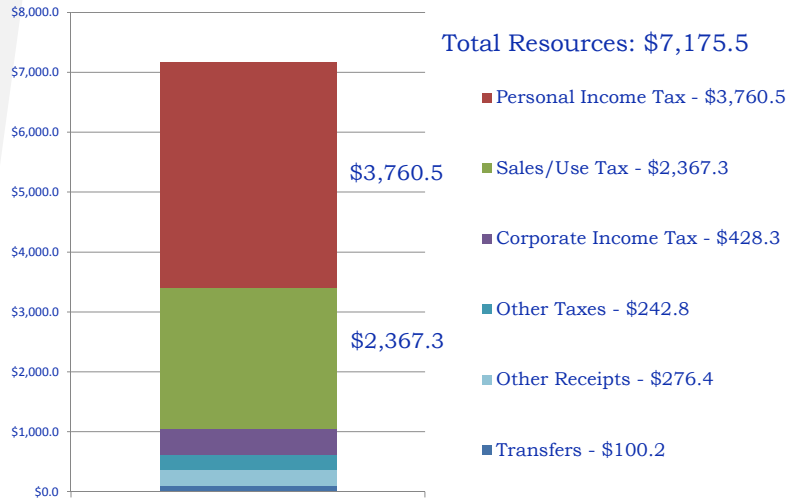
State of Iowa Budget Total Appropriations – General Fund (GF) and Other Funds (OF) (\$ in Millions)



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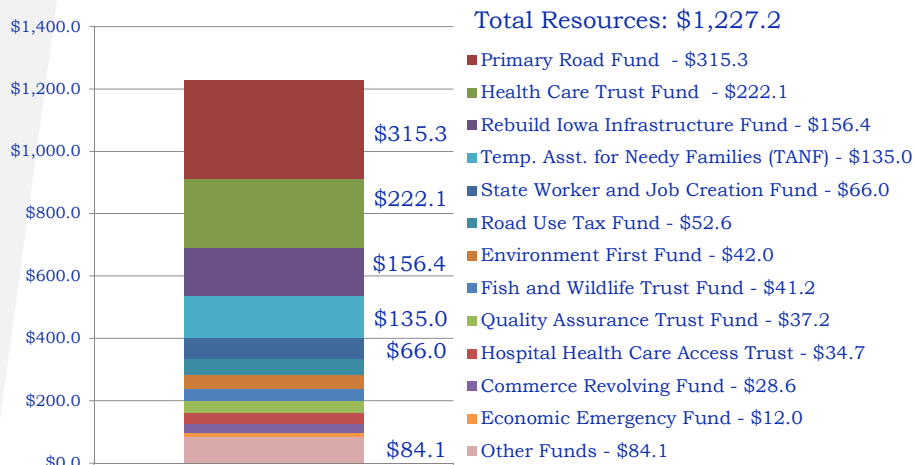
State of Iowa Budget FY16 Resources – General Fund (\$ in Millions)



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State of Iowa Budget FY16 Resources Supporting Other Fund Appropriations (\$ in Millions)



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State of Iowa Budget Resources

(\$ in Millions)

	Final Action FY16
December 2014 REC GF	
Revenue Estimate	\$7,175.5
Revenue Adjustments	11.2
Surplus Carryforward	<u>330.0</u>
Adjusted GF Revenue Estimate	7,516.7
Resources Supporting Other	
Fund Expenditures	<u>1,227.2</u>
Budgeted Resources	8,743.9
Resources Subject to Spending Limitation	<u>(72.5)</u>
Resources Supporting State Budget	<u><u>\$8,671.4</u></u>

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State of Iowa Budget Budget Summary

(\$ in Millions)

	Final Action FY16
Resources Supporting State Budget	\$8,671.4
Total Appropriations – All Funds	<u>(8,398.9)</u>
Surplus	<u><u>\$272.5</u></u>

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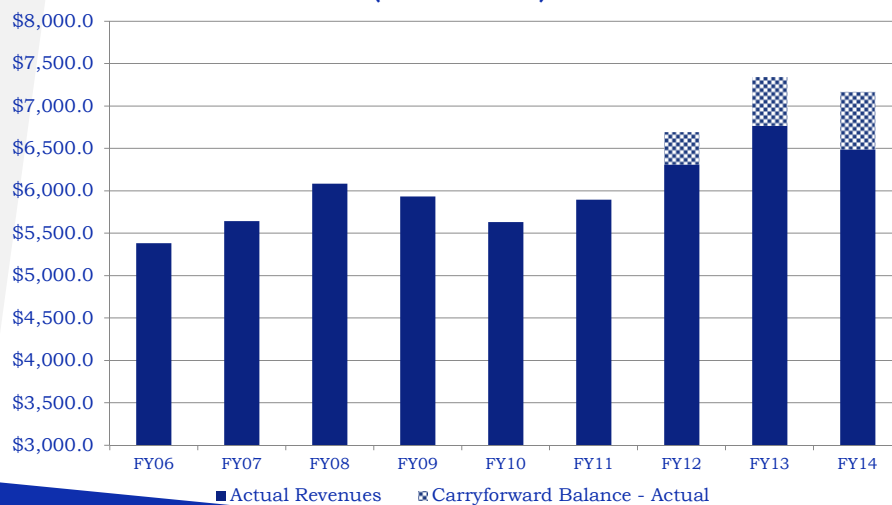
State of Iowa Budget

- Budgeting Principle – “Avoid using one-time resources for ongoing expenses.”
- Surplus carryforward is not a reliable, ongoing source of revenue.
- \$12 million of appropriations from the Economic Emergency Fund – a one-time/limited time source.

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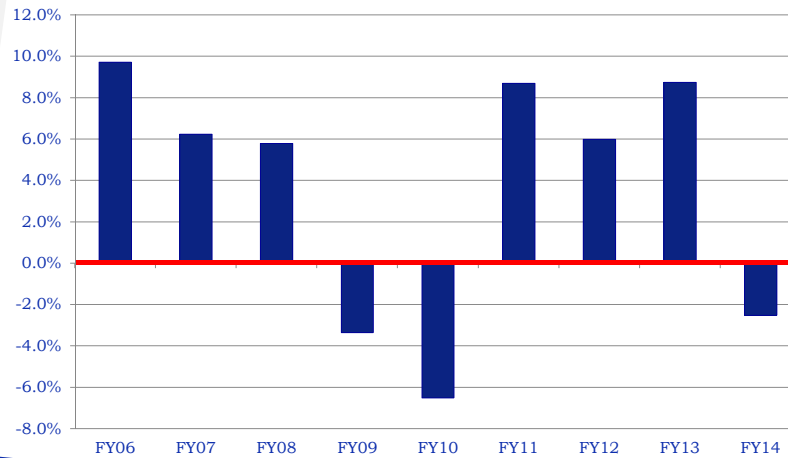
State of Iowa Budget Actual General Fund Resources (\$ in Millions)



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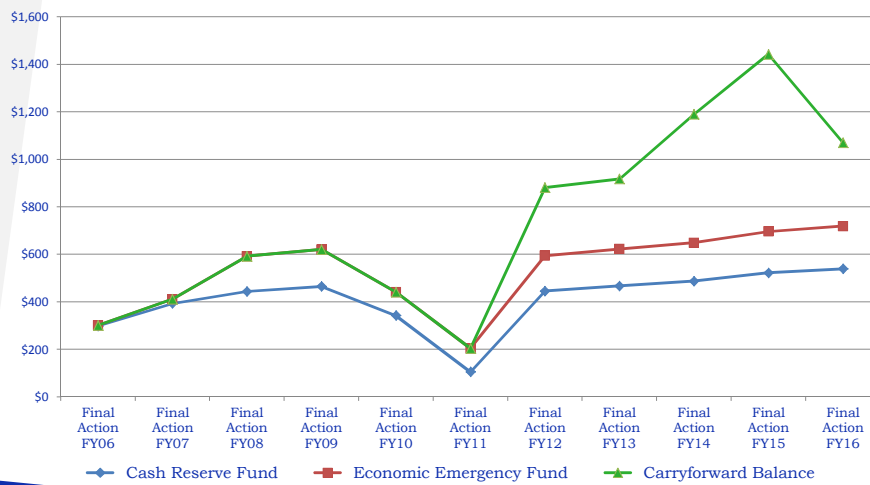
State of Iowa Budget Actual General Fund Resource Variance From December REC Revenue Estimate



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State of Iowa Budget Combined Reserve Funds (\$ in Millions)



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State of Iowa Budget FY16 Budget Highlights

- Property Tax Reform
- Education
- Medicaid
- Transportation
- Pension Systems
- Federal Funds

State of Iowa Budget Property Tax Reform

- Budgeting Principle – “Align resources and expenses in the same fiscal year.”
- Example: \$9.5 million for FY16 commercial property tax reform was appropriated from FY15 resources.

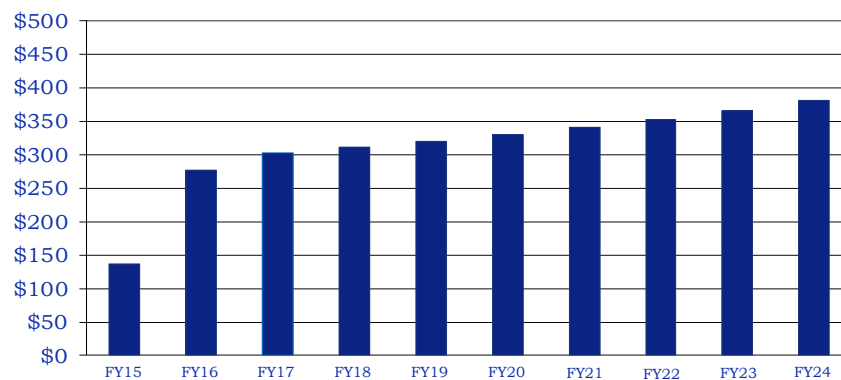
State of Iowa Budget Property Tax Reform

- Budgeting Principle – “Avoid multiyear accelerating commitments.”
- The 2013 Property Tax Reform law had a multiyear accelerating commitment that started in FY15 with an impact of \$136 million.
- The FY16 impact of property tax reform is \$253 million.

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State of Iowa Budget Property Tax Reform State Appropriation to Local Governments (\$ in Millions)

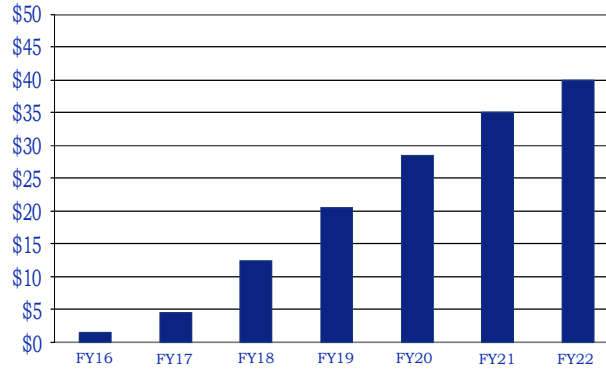


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State of Iowa Budget Education (\$ in Millions)

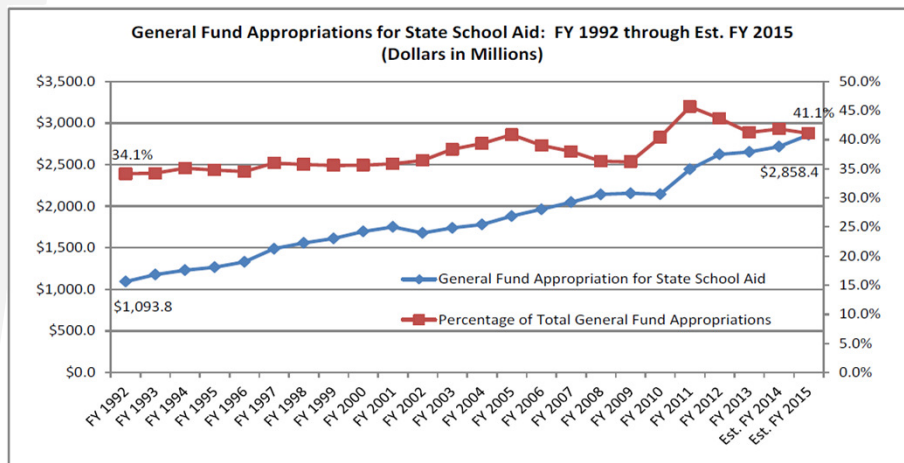
Reform Law – Teach Iowa Scholar Program



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State of Iowa Budget State Foundation School Aid (\$ in Millions)



Source: LSA, Budget Unit Fiscal Topic – State Foundation School Aid

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State of Iowa Budget Medicaid

- Budgeting Principle – “Accurately determine resources and expenses.”
- The FY16 Final Action budget underfunded the forecast by \$41 million.
- The FY15 Final Action budget underfunded the forecast by \$53 million.
- A supplemental appropriation of \$43 million was necessary to cover the FY15 shortfall.

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State of Iowa Budget Affordable Care Act

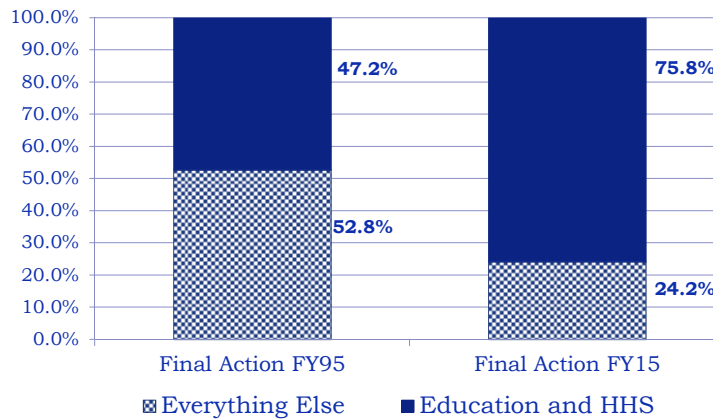
<u>Calendar Year</u>	<u>Federal FMAP %</u>
2014	100.00%
2015	100.00%
2016	100.00%
2017	95.00%
2018	94.00%
2019	93.00%
2020	90.00%
2021	90.00%

FMAP – Federal Medical Assistance Percentage

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State of Iowa Budget Education and HHS (\$ in Millions)



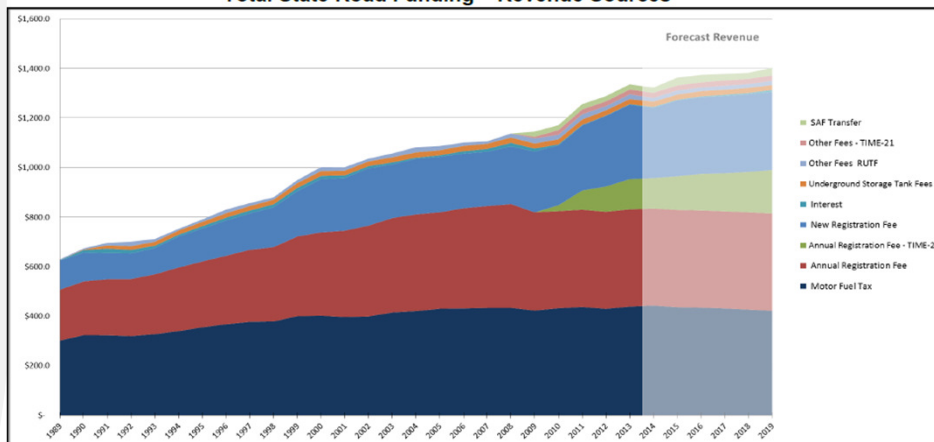
HHS – Health and Human Services

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State of Iowa Budget Transportation

Total State Road Funding – Revenue Sources

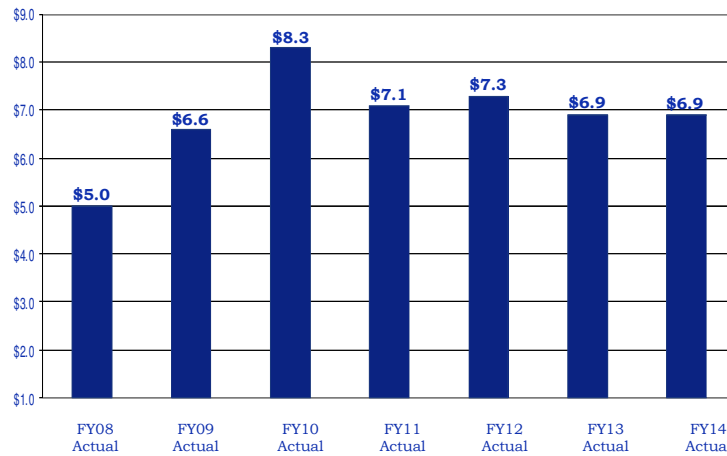


Source: LSA, Recent Motor Vehicle Fuel Tax Proposals,
<https://www.legis.iowa.gov/docs/publications/IR/250095.pdf>

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State of Iowa Budget Challenges Ahead – Reliance on Federal Monies (\$ in Billions)

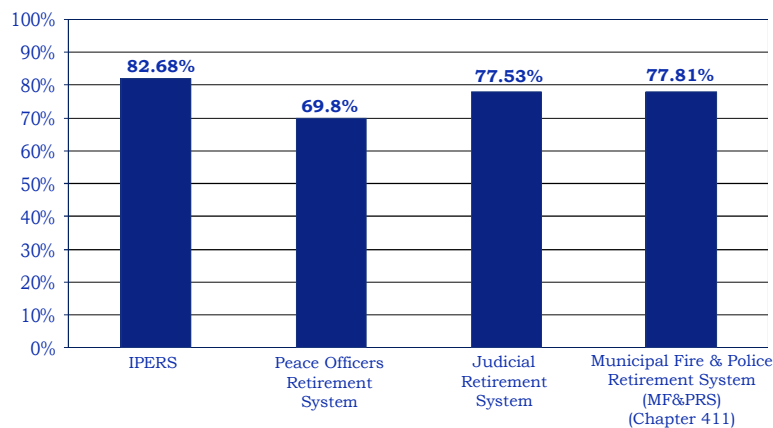


Source: AOS, State of Iowa Single Audit Reports, FY08– FY14

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State of Iowa Budget Iowa's Pension Systems FY14 Unfunded Actuarial Liability



Source: State of Iowa FY2014 CAFR, page 108, and MF&PRS 2014 Actuarial Valuation Report, pages 7-8

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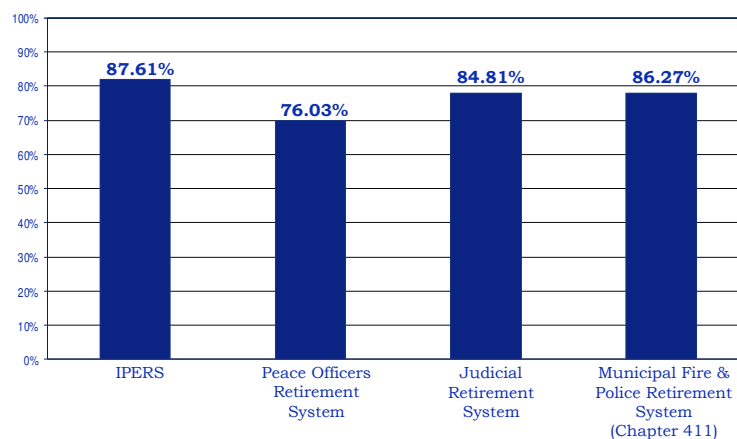
State of Iowa Budget Iowa's Pension Systems

- New reporting requirements impact defined benefit pension plans, such as IPERS, effective for years ended after June 30, 2014.
- Unfunded Actuarial Liability (UAL) was previously required to be disclosed in the notes to financial statements.
- Net Pension Liability (NPL) is required to be reported as a liability in the Statement of Net Position, effective June 30, 2015.
- The primary difference between the UAL and the NPL relates to asset valuation.
 - Total pension liability is \$32 billion.
 - Actuarial value used to compute the UAL.
 - Asset market value used to compute the NPL.

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State of Iowa Budget Iowa's Pension Systems FY14 Net Pension Liability



Source: IPERS FY2014 CAFR and the individual FY2014 Annual Reports for the other Retirement Systems

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State of Iowa Budget

Iowa's Current Fiscal Position:

- Strong average revenue growth.
- Reserve funds filled to statutory limit.
- Decrease of one-time resources used for ongoing expenses.

State of Iowa Budget Iowa's Fiscal Challenges

- Deviation from sound budgeting principles
 - One-time resources used for ongoing expenses
 - Multiyear accelerating commitments
 - Underfunded costs
 - Resources and expenses not aligned in same fiscal year
- Sustainability
 - Costs related to the Affordable Care Act
 - Reliance of Federal monies

State of Iowa Budget Sources and References

- LSA, End of Session Information 2015
<https://www.legis.iowa.gov/publications/fiscal/endofsession>
- LSA, 2005-2014 Session Fiscal Reports
- LSA, Issue Review – Federal Medical Assistance Matching Rates,
<https://www.legis.iowa.gov/docs/publications/IR/401788.pdf>
- LSA, Budget Unit Fiscal Topic – State Foundation School Aid
- LSA, Recent Motor Vehicle Fuel Tax Proposals,
<https://www.legis.iowa.gov/docs/publications/IR/250095.pdf>

Questions



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